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**FINANCIAL MANAGEMENT:
Review of Assertions Included in the
U.S. Customs Service's
Annual Reporting of Fiscal Year 2002
Drug Control Funds**

OIG-03-051

January 29, 2003



Office of Inspector General

The Department of the Treasury

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U.S. Customs Service's Annual Accounting of Fiscal Year 2002 Drug Control Funds

Abbreviations

Customs	United States Customs Service
OIG	Office of Inspector General
ONDCP	Office of National Drug Control Policy
U.S.C.	United States Code



Report of the Office of Inspector General

***The Department of the Treasury
Office of Inspector General***

Robert C. Bonner
Commissioner
United States Customs Service

We have reviewed management's assertions in Section B of the accompanying U.S. Customs Service (Customs) Annual Reporting of FY 2002 Drug Control Funds (Submission).

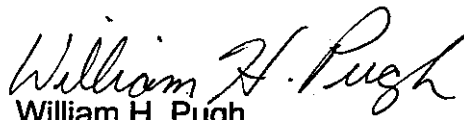
Our review was conducted in accordance with generally accepted government auditing standards, which incorporate the attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion.

The Submission, including the assertions made, was prepared pursuant to 21 U.S.C. §1704(d) and Office of National Drug Control Policy (ONDCP) Circular: *"Annual Accounting of Drug Control Funds"* (Circular), and is the responsibility of Customs' management.

Based on our review, nothing came to our attention that caused us to believe that management's assertions included in Section B of the accompanying Submission are not fairly stated in all material respects based on the requirements set forth in the Circular.

This report is intended solely for the information and use of the management of Customs, the Department of the Treasury, the ONDCP, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Your staff has reviewed our report, and have no comments. Should you or your staff have any questions, you may contact me at (202) 927-5430 or a member of your staff may contact Louis C. King, Director, Financial Audits, at (202) 927-5774. We appreciate the cooperation and the courtesies extended to our staff during the course of our review.



William H. Pugh

Deputy Assistant Inspector General for Financial Management and
Information Technology Audits

January 16, 2003

Financial Audits Division

Louis C. King, Director
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The Department of the Treasury

Office of Accounting and Internal Control
Office of Budget
Deputy Chief Financial Officer

U.S. Customs Service

Commissioner
Assistant Commissioner, Office of Finance
Director, Evaluation Oversight, Office of Planning
Executive Director, Budget Division, Office of Finance

Office of Management and Budget

OIG Budget Examiner



U.S. Customs Service

Memorandum

DATE: JAN 24 2003

FILE: BUD-4-OF:BD:FO TGC

TO: Barry K. Hudson
Acting Deputy Chief Financial Officer
Department of the Treasury

FROM: Executive Director, Budget
Office of Finance

SUBJECT: Annual Reporting of Fiscal Year 2002 Drug Control Funds

The U.S. Customs Service Annual Reporting of FY 2002 Drug Control Funds is attached.

Should there be any questions, please contact Kurt Hahn, Director, Budget Formulation Division at (202) 927-4084.


Carol A. Dunham

Attachment

cc: Anne Dixon
Carl Moravitz

TRADITION



SERVICE



HONOR

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE
Annual Reporting of FY 2002 Drug Control Funds

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2002 Drug Control Obligations

(Dollars in Millions)

<u>Drug Resources by Function:</u>	
Intelligence	\$ 39.031
Interdiction	573.063
Investigations	168.477
<u>Research and Development</u>	<u>3.725</u>
TOTAL	784.296
<u>Drug Resources by Decision Unit:</u>	
Salaries and Expenses	\$ 669.447
Operations and Maintenance	114.849
Violent Crime Reduction Trust Fund	0
<u>Facilities, Construction and Improvements</u>	<u>0</u>
TOTAL	784.296

1. Drug Methodology

On the basis of past practice, five organizations within Customs, the Office of Investigations, the Office of Field Operations, the Office of Information Technology, the Office of Training and Development, and the Office of International Affairs were provided with guidance on preparing estimates for the FY 2002 annual reporting of drug control funds. These offices were asked to estimate, on the basis of their expert opinion, what portion of their activities is related to drug enforcement. In addition, these organizations were also asked to only provide data for obligations against budget authority that became available in FY 2002.

All five organizations identified resources in their financial plans that support the drug enforcement mission of the agency. The Office of International Affairs has provided estimates this year for the first time since its take over of the Office of Foreign Operations from the Office of Investigations.

OFFICE OF INVESTIGATIONS

The Office of Investigations drug related activities can be broken down into the following six categories: investigative work in field offices, programmatic headquarters support of investigative work, tactical communications division, activities of the intelligence division, air and marine interdiction division activity, and cross-programmatic administrative and executive support at headquarters. The Office of Investigations identifies and tracks the hours that its agents spend on a wide variety of cases, including narcotics smuggling and money laundering cases related to narcotics smuggling.

Based on the relationship between total investigative hours spent and those spent on narcotics and money laundering cases, subject matter experts have concluded this year

that 57.5 percent of investigative resources are dedicated to the Customs drug enforcement mission and support the goals of the National Drug Control Strategy.

Resources for investigative work in field offices, programmatic headquarters support of investigative work, and tactical communications are broken down further into a 25/75-percentage split for the interdiction and investigative functions respectively.

Resources that support the intelligence activity managed by the intelligence division are considered to be 100 percent intelligence and resources supporting the Air and Marine Interdiction division are considered to be 100 percent interdiction. While resources that support the cross-programmatic administrative and executive support at headquarters are estimated with a weighted-application of the above percentages.

OFFICE OF FIELD OPERATIONS

The Office of Field Operations has identified 2,147 Inspector positions that are specifically identified with drug enforcement because they are either Contraband Enforcement Team (CET) Inspectors, Passenger Enforcement Rover Team (PERT) Inspectors, Manifest Review Unit (MRU) Inspectors, Passenger Analytical Unit (PAU) Inspectors, or Outbound Currency Inspectors. The salaries of these positions are assumed to be \$63,000 per annum and to contribute 100 percent of their time to drug enforcement.

There are 650 Canine Enforcement Officers that are 100 percent devoted to smuggling interdiction and 21 Currency Canine Enforcement Officers who are also 100% devoted to drug smuggling related interdiction.

There are 6,087 other Customs Inspectors that, in addition to the interdiction of contraband and illegal drugs, also enforce the 400 laws and regulations of many other Federal government agencies such as the Animal, Plant and Health Inspection Service (APHIS), the U.S. Fish and Wildlife Service, the Bureau of Alcohol, Tobacco, and Firearms (ATF), and the Bureau of Export Administration to name a few. Customs subject matter experts estimate that 30 percent of these inspectors time was devoted to drug related activities in FY 2002.

Total drug resources for Field Operations are further broken down into a 12/88-percentage split between the Intelligence and Interdiction functions respectively.

OFFICE OF INTERNATIONAL AFFAIRS

The Office of International Affairs has recently acquired the foreign operations division from the Office of Investigations and is therefore providing estimates for the first time this year. International Affairs identifies and tracks the hours that its agents spend on a wide variety of cases, including narcotics smuggling and overseas money laundering cases related to narcotics smuggling, which support the Customs drug enforcement mission.

International Affairs arrived at its estimates through the use of the investigative case management system to derive the FTE worked on narcotics issues in fiscal year 2002. The foreign position model was then used to arrive at the annual narcotics investigative costs for the Office of International Affairs personnel assigned to our foreign locations.

OFFICE OF TRAINING AND DEVELOPMENT

The Office of Training and Development's mission support, while vital to the Customs Service, is not entirely drug related. As a consequence, the Office of Training and Development estimates were excluded from last year's submission. The Office of Training has provided estimates this year for Customs drug enforcement mission.

Training arrived at its estimates by reviewing all courses conducted in FY 2002 to determine if the course contained drug enforcement related material. If the course was found to contain drug related material, it was then categorized by interdiction, investigation, or intelligence. In addition, the percentage of drug related material was identified and the total cost for the course was then multiplied by the drug content percentage.

The costs associated with training delivery were recorded under operations as well as in the three individual drug functions. Estimates from the Federal Law Enforcement Training Center (FLETC) were derived based on classes conducted, instructors, and support personnel. Firearms training was deemed 100 percent drug related in its mission and headquarters personnel were denoted as a support function to all field representatives.

Total drug resources for Training are further broken down into a 81/2/17-percentage split between the Interdiction, Intelligence, and Investigations functions respectively.

OFFICE OF INFORMATION TECHNOLOGY

The Office of Information Technology, which oversees the research, development, acquisition, and support and maintenance of technology such as non-intrusive inspection systems through its Applied Technology Division (ATD), supports the Customs drug enforcement mission.

The Office of Information Technology estimates that 50 percent of base resources, 43 percent of research and development resources, 36 percent of acquisition resources, and 50 percent of support and maintenance resources are dedicated to drug enforcement.

2. Methodology Modifications

- (a) In accordance with the approved methodology that ONDCP approved in February 2001, the Office of Training has been included in this year's estimates. If Customs had not reported the Office of Training and Development estimates, obligation estimates would decrease by approximately \$10 million.
- (b) Last year's Office of Information and Technology submission used 90% of base resources, 95% of research and development resources, 94% of acquisition resources, and 85% of support and maintenance resources were dedicated to drug enforcement. In this submission, these percentages have been lowered to 50% of base resources, 43% of research and development resources, 36% of acquisition resources, and 50% of support and maintenance resources are dedicated to drug enforcement. If last year's percentages had been used, Customs obligation estimate would have increased by \$52.9 million.

Overall, these changes lower the Customs obligation estimates in this submission by \$42.9 million, but we believe that it more fairly characterizes our efforts and provides a better point for comparison against past estimates.

The following changes affected the distribution of resources between goals and functions, but not the overall amount:

- (c) In this submission, the Office of Investigations retrieved its information at a lower level of detail. It gathered its information from the sub-allotment level rather than the budget plan level, which allows for greater accuracy in the application of percentages. This estimate will fluctuate from year to year based on the casework that Customs Special Agents conduct.
- (d) Intelligence activity, managed by the Intelligence division, is being reported under the intelligence function, rather than being reported within the interdiction and investigations functions as it was last year. This estimate will also fluctuate from year to year based on the casework that Customs Special Agents conduct.

3. Material Weakness or Other Findings

None

4. Reprogramming or Transfers

None

5. Other Disclosures

None

B. Assertions

1. Drug Methodology

Customs asserts that the methodology used to estimate drug enforcement related obligations and FTE utilization is reasonable and accurate. The criteria associated with this assertion are as follows:

a. Data

The estimate of drug enforcement related costs is based on the methodology described in section A.1 above. While there have been certain adjustments made to the methodology that ONDCP approved on February 13, 2001, these are seen as necessary to present a fair and accurate picture of the Customs drug enforcement mission.

b. Other Estimate Methods

None

c. Financial Systems

The United States Customs Service financial systems are capable of providing data that fairly present, in all material respects, aggregate obligations. The drug methodology described in section A.1 above is used to estimate what portion of

these obligations may reasonably be considered to be associated with drug enforcement related activities.

2. Application of Methodology

The methodology described in section A.1 above was used to prepare the estimates contained in this report.

3. Reprogrammings or Transfers

No changes were made to the Customs Service Financial Plan that required ONDCP approval per the ONDCP Circular dated May 30, 2002.

4. Fund Control Notices

No assertions are made in this area since Fund Control Notices were not issued during FY 2002.